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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 003555

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SUBJECT: NEW CABINET MANTRA: PRIVATE SECTOR WILL ADD JOBS

Classified By: ADCM John G. Moran for reasons 1.5 (b) and (d)

1. (C) Summary: With Kuwait's population expanding at a rapid pace, the new GOK says it will finally turn to the private sector in an effort to bolster its economy. During courtesy calls last week with many of the new Ministers, the Ambassador was on more than one occasion treated to the GOK's latest analysis of its economy, which holds that Kuwait will face a serious crisis if it does not rapidly expand job creation in the private sector for the next generation. End Summary.

BURGEONING COSTS

2. (C) During their July 26 meeting, the Ambassador and Minister of Justice Ahmed Baquer discussed the Kuwaiti economy. Baquer showed the Ambassador a diagram depicting a triangle dissected by a horizontal line about 1/3 of the way down from its tip. He explained that the diagram represented the current Kuwaiti population, with the portion above the line representing those Kuwaitis who were already in the workforce, the portion below the line representing those who had yet to do so, and the line being the age of majority (currently 18). Baquer said that the GOK has realized that it "must create jobs in the private sector" if it wishes to avoid high unemployment and massive budget deficits in the near future, as the majority of its population comes of age. (Comment: 92 - 98% of the current Kuwaiti workforce is employed by the GOK in some form or another. They enjoy the benefits of relatively high salaries and very limited work hours. The constitution guarantees Kuwaiti nationals a job. Only unexpectedly high oil prices have kept the GOK budget in the black the past two years. End Comment.) Reinforcing this, Baquer shared some statistics. He said that where there had been 1400 high school graduates in all of Kuwait in 1970, there were 14,000 in 2000, a ten-fold increase. He said there were currently 15,000 Kuwaitis waiting for jobs, while current government employees were "doing nothing" except drawing subsidies for housing, using the government's generous healthcare benefits and drawing retirement pensions. Finally, he said that the government is predicting it will have outlays of KD 7 billion for salaries alone in 2017, whereas the 2002 figure was KD 2 billion. Baquer conceded the GOK would have a hard time selling any privatization measures in Kuwait, due to opposition from National Assembly members. "The MP's are against privatization. They call it the stealing of Kuwaiti wealth."

HEALTH CARE PRIVATIZATION

3. (C) Although Baquer did not share any specific plans for reforms by his Ministry, other Ministers did. During their July 27 meeting, Minister of Public Health, Dr. Mohammed Ahmad Al-Jarallah shared with the Ambassador his plans to allow for the development of private hospitals and health insurance. Jarallah said plans were already in the works to allow prominent US medical centers (such as the Mayo Clinic) to develop hospitals and sell private health insurance in Kuwait. This would serve the large expatriate labor force by introducing lower health care premiums into the market and bringing advanced medical technology and care to the country. The hope is that this would decrease the number of Kuwaitis who currently seek medical treatment outside Kuwait, most of them at government expense.

OPENING MARKETS

4. (C) Minister of Commerce Abdullah Taweel told the Ambassador on July 28 that he had given a presentation to the Council of Ministers on how the GOK could liberalize its markets and encourage domestic investment. The presentation was well-received, and the GOK decided it would work to change decrees and laws currently hampering investment. The Minister said he would work with his colleagues, including Minister of Interior Shaykh Nawaf Al-Sabah (Note: The Ministry of Interior is responsible for controlling the borders. End Note.), to ensure coordination of their efforts. "Shaykh Nawaf says the economy is the new focus" now that the security threat (i.e. Saddam Hussein) has been removed,

he said. Taweel said the government's first steps will be to renovate and upgrade Kuwait's port facilities, work on changing food standards in order to allow allow random (vice comprehensive) testing of products from source countries known to protect their consumers and generally streamline bureaucratic procedures. "We're opening the doors to everything," he added.

PRIVATIZING HOUSING

15. (C) Minister of Public Works and Minister of State for Housing Affairs Bader Nasser Hmaidid told the Ambassador on July 30 that he will attempt to structure incentives for Kuwaitis seeking housing so as to cut government costs. "Kuwait is the only country in the world to provide housing for its citizens," he said, "but our citizens don't make good housing decisions." Hmaidid said the GOK has hired a consultant and is looking to offer Kuwaitis choices of several house sizes and floor plans built by private companies on a quasi-B.O.T. basis. He said Kuwaitis will eventually have 5-6 models to choose from, allowing the government to rein in the current runaway size and cost of Kuwaiti housing.

16. (C) Hmaidid also said the Ministry of Public Works has plans to build a bridge over the Gulf of Kuwait, beginning next year, which will connect Kuwait City to the Sabiyah area. Current plans are for a bridge 50 meters above the water at its highest point and 22 kilometers long. In addition, the Ministry is planning to expand facilities at Shuwaykh Port and Kuwait City International Airport's and build industrial parks and a port on Bubiyan Island, as well as a free-trade zone near the Iraqi border. Many of these projects will be developed with the private sector, he said.

DIRECT INVESTMENT LAW

17. (C) During their July 30 meeting, Minister of Finance Mahmoud Al-Nouri told the Ambassador that the Foreign Investment Law, which was passed in 2001 but has not yet been implemented, is awaiting the resolution of three points by the Council of Ministers. He said he had been instrumental in its passage and would work to see it implemented as soon as possible. Al-Nouri shared the Ambassador's interest in expanding U.S. business activity in Kuwait and proposed a fall meeting between the U.S. and Kuwaiti business communities to identify further areas of cooperation.

PRIVATE UNIVERSITIES

18. (U) Under the terms of a new law, a number of private universities have been established over the past year, including the American University of Kuwait, headed by the well-known liberal academic and former Director of the Washington-based Kuwait Information Office, Dr. Shafeeq Al-Ghabra. In a July 29 meeting, new Minister of Education Dr. Rashed Al-Hamad affirmed to the Ambassador that the GOK would continue to emphasize such private sector approaches to higher education. This initiative will be aided by new rules for foreign suppliers' offset obligations, which give big incentives for investment in education.

COMMENT

19. (C) The talk of privatization and the opening of Kuwaiti markets is heartening, but not altogether convincing given the GOK's poor track record in the past and the vested interest of many Kuwaitis in maintaining the status quo. Nonetheless, hopes are higher that Shaykh Sabah's new title of Prime Minister and the election of a National Assembly that should be more amenable to working with the government will lead to long overdue reform of the economy and greater scope for private sector activity.

JONES